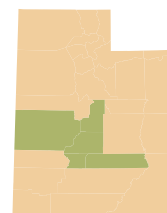




## Why Do Unemployment Rates Contract?

*Participation rates and demographics can help our understanding*



BY LECIA PARKS LANGSTON, ECONOMIST

Economists typically deal with aggregate levels of data: Is the county's unemployment rate contracting? Are its jobs growing? Are incomes keeping up with inflation? However, a multitude of fluid and individual economic factors lie hidden behind the mask of aggregate figures. Changes in unemployment rates may reflect changes in the labor force that are not readily apparent. In particular, changes over time in labor force participation can affect both employment ratios and unemployment rates.

First, a quick primer on just exactly what the headline unemployment rates represent. No, rates do not include only unemployment insurance claimants. In an average year, claimants account for roughly 30 percent of jobless counts. If you are out of work and looking for a job, then you are considered unemployed. Rates include teenagers seeking a first job, workers who don't qualify for unemployment insurance and individuals returning to the labor force after a long absence.

Keep in mind that all unemployment rates are not created equal. National rates

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*How can demographics and labor force participation rates help us understand unemployment fluctuations?*

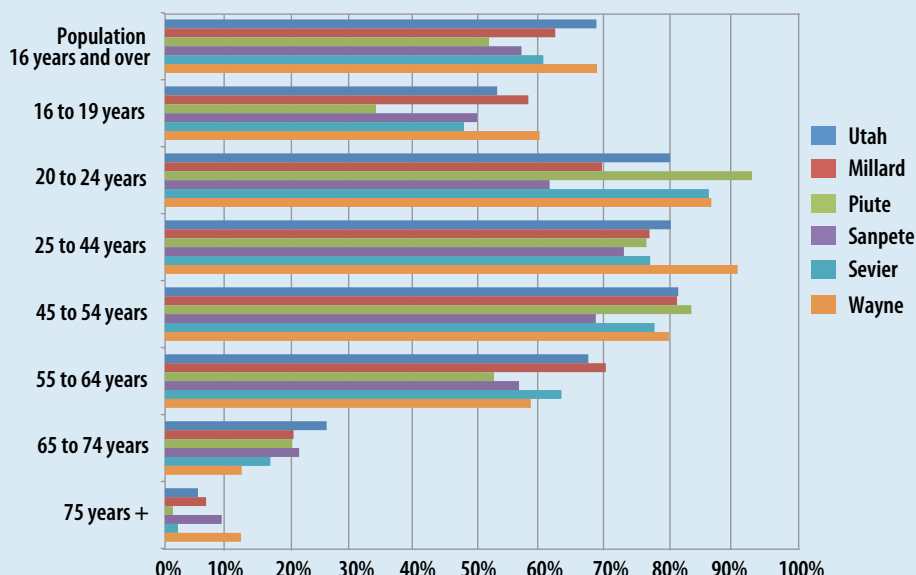
#### A Tale of Two (Very Different) Recoveries ..... 5

*Most rural counties in Central Utah continue to struggle to fully join the recovery.*

#### Initial Claims as an Economic Indicator ..... 8

*Unemployment Insurance initial claims data from the past three years point toward an improving economy.*

Figure 1: Labor Force Participation Rates, 2007–2011 Average





## Why Do Unemployment Rates Contract? (continued)

are derived from a monthly survey using a statistically drawn sample, and changes of least 0.2 points can be considered statistically significant. Smaller-state rates (like Utah) are modeled using survey data. County rates are only estimated using a variety of data sources and a consistent national methodology.

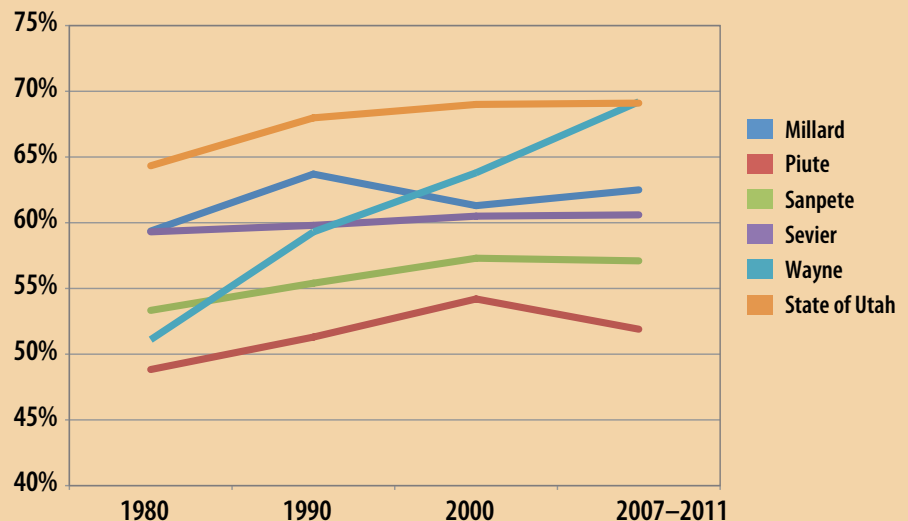
### The Causes

What has instigated falling unemployment rates in many counties throughout Utah since the end of the recession in 2009? The first answer is simple: growth in jobs. Jobs are created, unemployed workers are re-employed and the unemployment rate declines. One of the most influential factors affecting the unemployment rate is the economy's current position in the business cycle. During a boom, unemployment rates typically drop as employment increases. In a recession, jobless rates typically rise as employment opportunities decrease.

In every county in Central Utah except Sanpete, consistent, notable employment expansion has yet to occur. Yet, jobless rates have fallen. Other labor force phenomena can account for a decrease in the unemployment rate in the absence of job creation. Workers failing to find work in Richfield, Utah, may move to the oil fields of North Dakota to look for work. In this case, they have removed themselves from the Utah labor market and reduced the number of Utah's unemployed. Discouraged workers who stopped looking for work also reduce the number of recorded unemployed individuals.

Changes in participation rates are perhaps the most intriguing and unknown forces behind labor force trends, including

Figure 2: Labor Force Participation Rates for Total Populations



Source: U.S. Census Bureau; Decennial Census, American Community Survey

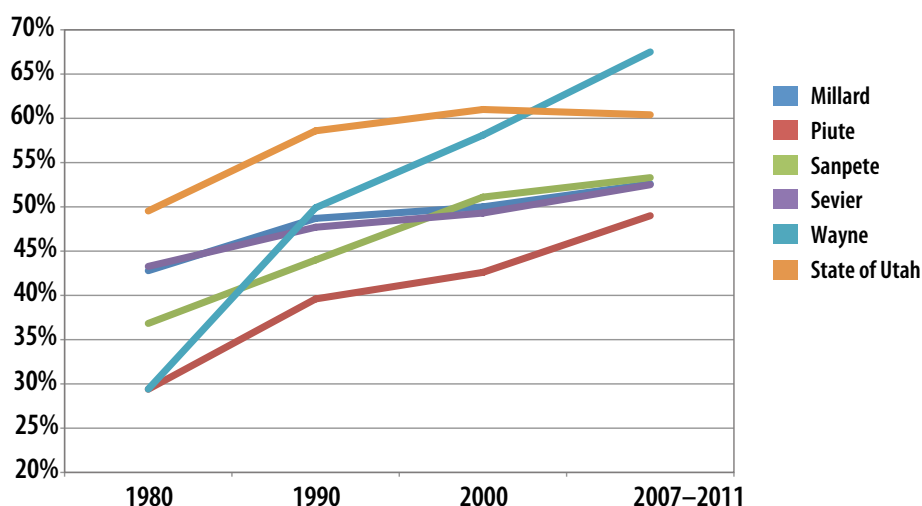
unemployment rates. A participation rate is defined as the percentage of the civilian population over the age of 16 who are either employed or unemployed. Recently, some pundits have bemoaned the fact that a smaller percent of the U.S. population is employed (lower employment ratio) or participating in the labor market rather than focusing on a declining unemployment rate. However, a look at the changes in participation rates among different groups clarifies these current labor market figures. An analysis of national data suggests that the decline in the percentage of the working population can primarily be attributed to less labor force participation among teenagers and individuals in their early twenties ([economyutah.blogspot.com/2012/10/what-does-nations-declining-employment.html](http://economyutah.blogspot.com/2012/10/what-does-nations-declining-employment.html)).

Can the same be said of Central Utah? County-level labor force data availability

remains far less robust than that of the state and nation. However, participation rates are available from census years and the American Community Survey, data that provides fodder for an examination of recent labor market trends and their possible affect on unemployment.

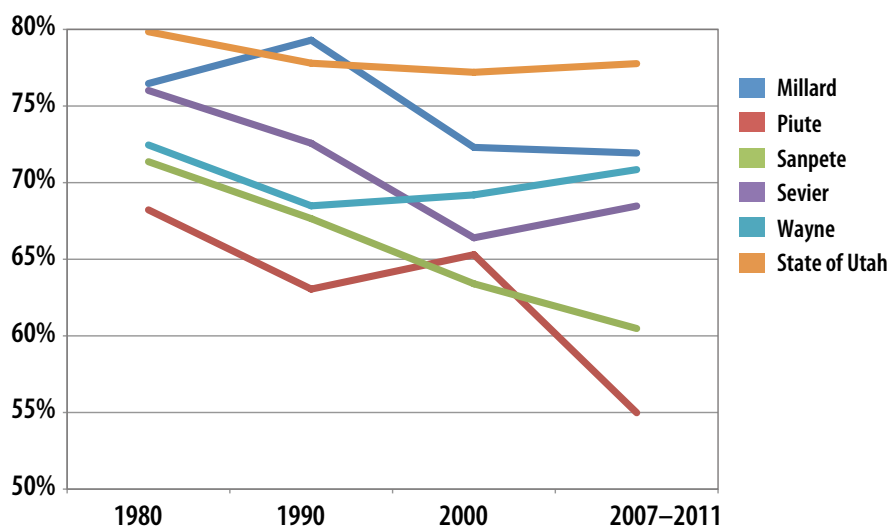
A county's age distribution affects overall participation in the labor force. Individuals over the age of 65 are least likely to participate. Therefore, counties with a high share of seniors (Piute, Sevier and Millard) might show lower total participation rates than counties with a much lower share. The senior share of the population is relatively high for most of these rural counties. Interestingly, 2007-2011 five-year American Community Survey estimates indicate that Piute County (with the highest portion of the over-65 population) does display the lowest overall participation rate in the region — a mere 52 percent compared to the

Figure 3: Female Labor Force Participation Rates



Source: U.S. Census Bureau; Decennial Census, American Community Survey

Figure 4: Male Labor Force Participation Rates



Source: U.S. Census Bureau; Decennial Census, American Community Survey

state average of 69 percent. However, Sanpete County, with its relatively low share of the over-65 population, produces the next lowest participation rate at 57 percent.

Age demographics also play a role in the unemployment rate. Teenagers typically show much higher unemployment rates than older adults. Therefore, counties with high shares of teenagers and high participation rates might see some upward unemployment pressure not evident in counties with an older, more stable workforce. Both Wayne and Millard counties (60 percent and 58 percent, respectively) present the highest teenage participation rates. Piute County teenagers are least likely to participate in the workforce, possibly due to few job opportunities in the area.

The mix between male and female participants also plays a role in understanding changes in the unemployment rate. In recessions, women usually display lower unemployment rates, while men show the lowest joblessness during expansionary periods.

Typically, the 2007–2011 labor force participation rates in Central Utah measure below statewide averages. Wayne County proves the only exception with a participation rate equal to the state average. The difference can be accounted for by an older population, historically less female participation and fewer employment opportunities.

### A Historical Perspective

In the long run, unemployment rates reflect demographics, industry mix and seasonal patterns. For example, economies with very seasonal employment patterns typically show higher unemployment rates than those with less seasonality. Wayne County's employment base has a seasonal, tourist-related component that results in an above-average unemployment rate. (Currently, that rate is also exacerbated by the closure of the county's largest employer.) This tourism-based economy generally registers one of the highest seasonally adjusted unemployment rates in the state. Yet, its workers show some of the highest participation rates in the region. Because



## Why Do Unemployment Rates Contract? (continued)

many jobs are seasonal, a high percentage of workers experience a spell of unemployment some time during the year, resulting in an above-average jobless rate that is totally unrelated to the business cycle.

Tracking participation rates from a historical perspective can also help illuminate the changing nature of the labor market and its accompanying unemployment levels. Between 1980 and 2000, total workforce participation in Utah rose from 64 percent to 69 percent. However, the difference in participation rates for 2000 and the 2007–2011 averages measured an insignificant 0.1 percent. Of course, 2007–2011 encompasses boom, bust and recovery. Business cycle effects undoubtedly generated some of the change. However, the leveling-off of female labor force participation, a decided drop in the participation of teenagers and less participation among the labor market's prime workforce age group (25–54 year olds) definitely proved to be contributing factors.

Interestingly, labor force participation among older workers (55 and older) actually increased when between 2000 and 2007–2011. The trend toward early retirement obvious in earlier years seems to have reversed itself. Some possible reasons for the change? Employer-related retirement plans have seen a major shift from traditional pensions toward 401(k) plans. Since workers bear more of the burden of saving for retirement and funds are generally less certain than in traditional plans, early retirement seems a less likely option. However, rates for those over 65

also increased. Many healthy workers over 65 have “retired” from one job and taken on another, less-demanding position. Many women in this age group did not participate in the labor force in any significant way. They now find themselves without a spouse and only a social security income. They work to supplement that income. Finally, polled baby boomers often mention their desire to keep on working past the typical retirement age. The first baby boomers just recently turned 65 and are possibly being true to their intentions.

### Gender

In some ways, Central Utah follows the state pattern. In other ways it does not. For example, Utah total participation rates flattened in the last decade as did rates in Sanpete and Sevier counties. In Millard and Wayne counties, rates expanded while in Piute County participation decreased. This mixed bag of participation rate performance appears related more to changes in male labor participation than that of women.

Throughout Central Utah, female labor force participation rates increased steadily for the last three decades, diverging from the slight decline in Utah rates in the 2000 to 2007–2011 time frame. Perhaps this phenomenon occurs because women in these counties were slower to enter the labor force en masse than were their statewide counterparts. In other words, because they lagged behind the state in entering the workforce, these counties may yet see female participation rates decline.

In contrast, male participation rates have declined quite notably in Millard, Sanpete

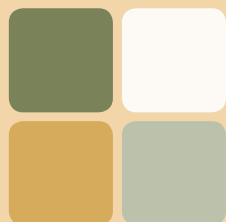
and especially Piute counties but ticked up in Sevier and Wayne counties. (Utah male participation rates fell until 2007–2011, when they shifted upward.)

### Age

Workforce participation rates in the 54–64 age range generally showed the uptick in labor force attachment demonstrated by the state. (Piute County proved the lone exception.) However, individuals older than 65 in Central Utah primarily showed continuing declines in labor force participation while in Utah attachment increased. In most counties, teenagers showed declines in participation rates comparable to the state average. However, the two counties with the highest participation among 16- to 19-year-olds (Millard and Wayne counties) also displayed an increase in their rate of workforce participation.

While participation among the core working age population (25–54) leveled off in Utah, rates for this age group increased in Piute, Millard and Wayne Counties. In Sanpete County, participation among this group dropped quite dramatically and Sevier County showed a slight decline.

The labor market is unbelievably fluid. A look below the surface sheds light on what headlines and aggregate labor market figures mean.



## A Tale of Two (Very Different) Recoveries

BY LECIA PARKS LANGSTON, ECONOMIST

Most of the rural counties in the Central region of Utah continue to struggle to fully join the recovery. Only Sanpete County is experiencing sufficient enough employment expansion to be considered economically fit. Here's a brief look at each county's economic standing.

### Millard County

Although Millard County seems to have shaken off most of the employment losses related to the wrap-up of a 2011 construction project, many of its remaining industries continue to suffer a job drain, according to recently released nonfarm job figures. In addition, the only current economic indicator moving in the “right” direction is the unemployment rate.

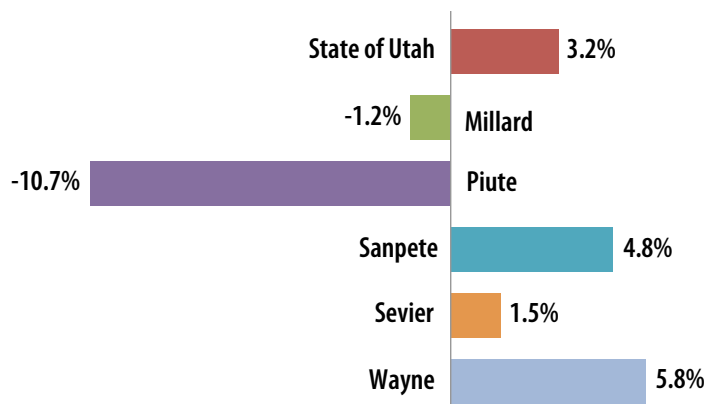
Between September 2011 and September 2012, Millard County employment contracted by almost 50 jobs — a 1.2 percent decline.

Unfortunately, most major industry categories joined in this employment decrease. Construction, manufacturing, retail trade, utilities, private education/health/social services, leisure/hospitality services and the public sector (local government) each lost more than ten positions.

Some industries avoided the employment gloom. In particular, professional/business services employment surged by more than 60 positions. Wholesale trade and transportation also added notable numbers of new jobs. What doesn't show up in the nonfarm job total are the 20 net new covered agricultural positions created over the past year.

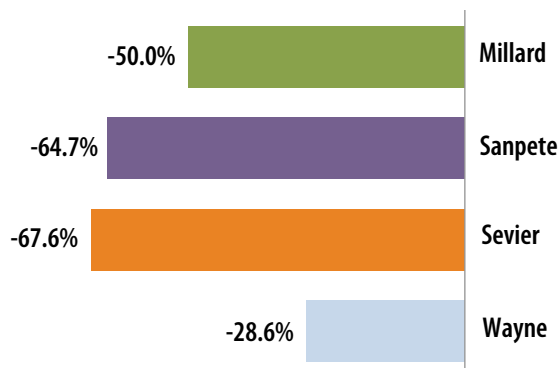
Despite current employment losses, unemployment in Millard County continues to edge down. As of November 2012, the county's jobless rate registered a mere 4.4 percent — far below the state average of 5.2 percent. How can unemployment continue to decline in the midst of job loss? The two main

**Figure 5: September 2011 to September 2012  
Change in Nonfarm Jobs**



Source: Utah Department of Workforce Services and U.S. Bureau of Labor Statistics

**Figure 6: January–October 2012 Year-Over-Year  
Change in Dwelling Unit Permits**



Source: Utah Bureau of Economic and Business Research





## A Tale of Two (Very Different) Recoveries (continued)

reasons are that people have left the area or left the labor market altogether.

Initial claims for unemployment insurance seem to have settled at a comparatively low level as 2012 came to a close. In the first weeks of 2012, initial claims measured noticeably below the previous year's figures.

There is certainly no cause for celebration in construction permitting. After a spurt of home building in 2011, permits for the first 10 months of 2012 are down by half.

Third quarter gross taxable sales figures picked up for the first time since early 2011. Between the third quarters of 2011 and 2012, sales increased by a robust 10 percent.

### Piute County

Piute County has not experienced any year-to-year job growth since the end of the recession. While many rural counties have vacillated between job-loss and job-gain as the recovery proceeded, Piute County just continued to shed nonfarm employment. Recently released third-quarter jobs data show a county that has just not yet dug its way out of the recession. During the third

quarter, year-over job losses ranged from 4.1 percent to 10.7 percent.

Third-quarter job contraction was at its worst in the final month. Between September 2011 and September 2012, Piute County lost another 30 positions for a decline of almost 11 percent.

Most major industrial sectors actually displayed little change in job totals. Private education/health/social services persisted as the primary driver of loss, and a decline in public sector positions placed a further drag on the labor market.

Despite an ongoing track record of job loss, Piute County's unemployment rate has continued to drop. Many county workers commute to other areas for employment.

In December 2012, Piute County's unemployment rate registered 5.2 percent — equal to the state average. Moreover, the current level of joblessness is fairly low when compared to many rural counties.

Gross taxable sales failed to add any brightness to Piute's County's economic picture. Third-quarter gross taxable sales

dropped 13 percent, the second straight quarter of decreasing sales.

### Sanpete County

As evidenced by recently released third quarter 2012 job numbers, Sanpete County continued to experience healthy economic expansion. Moreover, Sanpete County remains one of the few nonurban counties in Utah (without an oil/gas boom) to have achieved this lofty goal.

Monthly year-to-year jobs growth rates in the third quarter ranged from 4.8 percent to 5.8 percent. The last month in the quarter, September 2012, showed an employment increase of nearly 5 percent — a net gain of 340 jobs.

In recent months, expansion seems to be reaching a plateau. This is a good thing. While strong employment growth is an economic plus, overheated growth is not.

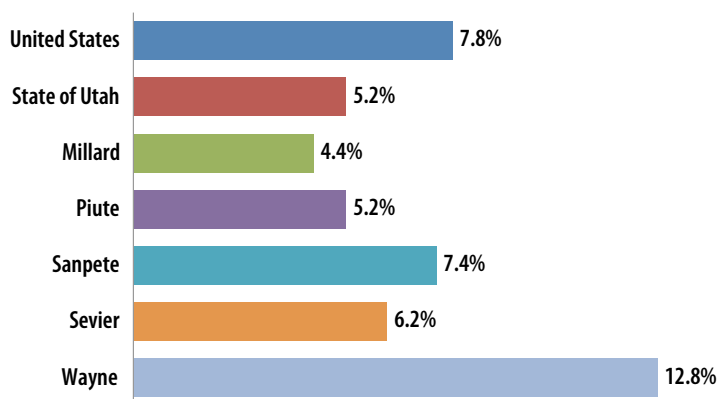
Manufacturing proved the star of third quarter gains. Employment in this sector is up almost 120 jobs from last year. Private education/health/social services and the public sector (both state and local governments) added roughly 80 jobs each.

However, not all major industries joined in the employment joy. Still, for the most part, industry losses were relatively small. Financial activities took the biggest hit with a decline of 20 jobs year-to-year.

Not surprisingly given the current spate of employment expansion, joblessness continues to trend downward. In December 2012, Sanpete County's unemployment rate stood at 7.4 percent — down 0.3 points from December 2011.

Construction permitting activity remains the one blemish on this otherwise robust economic situation. Home permitting for the first 10 months of 2012 is down a whopping 65 (compared to the same time period last year). There does appear some moderation in the negativity in the final months in this time frame.

**Figure 7: December 2012 Seasonally Adjusted Unemployment Rates**



Source: Utah Department of Workforce Services and U.S. Bureau of Labor Statistics

Gross taxable sales have followed employment's lead. Sanpete County third-quarter gross taxable sales increased 4 percent year-to-year, marking the sixth straight month of improvement.

### Sevier County

Sevier County pulled itself out of the recession earlier than most of its nonurban neighbors. However, in the intervening quarters much of that early expansion has slipped away. With the release of preliminary third quarter 2012 employment data, Sevier County seems to be taking its first baby steps toward a healthier economy.

In the third quarter, monthly year-over employment gains bounced around the 2 percent mark. While not representing the fittest of economies, the relatively steady expansion is better than the no-growth scenario earlier in the year.

Between September 2011 and September 2012, Sevier County added almost 120 net new jobs for a growth rate of 1.5 percent.

Two industries stand out as the major contributors to an enlarging labor market: private education/health/social services and transportation each added more than 70 jobs.

On the negative side of the ledger, mining, construction and government took a job hit of roughly 20 positions each.

After a brief uptick in joblessness early in the year related to layoffs, Sevier County's unemployment rate is once again slowly

trending downward. In December 2012, the county's jobless rate stood at 6.2 percent.

For the first ten months of the year, home permits are down 68 percent. Moreover, the county has not experienced an improvement in home permitting in six years. On the other hand, new nonresidential permitting should buoy up the sagging construction industry employment. Permitting a public project has increased total permitting values 72 percent over the last year.

Sevier County's third quarter gross taxable sales increased a meager 1 percent year-over. However, the county's sales have grown in six of the last seven quarters.

### Wayne County

In September 2012, Wayne County showed its first year-over job growth since December 2010. Most of the previous spate of employment contraction can be traced to the closure of Aspen Health Group's programs in the county.

Between September 2011 and September 2012, Wayne County added 23 net new jobs — certainly a first step toward economic restoration. This 2.3 percent is not particularly large, but marks the first gains in years.

All industries have yet to share in the employment expansion. The largest number of new jobs appeared in the private education/health/social services industry. Mining and leisure/hospitality services also chipped in a noticeable number of new positions.

About half the county's major industry's showed declining job totals. Although most losses remain minor (the largest was manufacturing, down 7 positions), together they do drag down the labor market.

Not surprisingly, Wayne County's unemployment rate remains high. The county's December 2012 rate stood at a whopping 12.8 percent — more than double the Utah rate.

Wayne County construction permitting for the first ten months of 2012 shows a less than exciting picture. Home permits are down by 30 percent compared to the same time period in 2012 and total permit values have dropped 18 percent.

Despite its other economic problems, Wayne County has shown a relatively consistent pattern of growth in gross taxable sales over the past two years. Third quarter was an exception with a 3 percent year-to-year decrease.

For a more thorough analysis of county economic data, please check out our blog:  
<http://economyutah.blogspot.com/search/label/Region--Central>



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## Initial Claims as an Economic Indicator

BY MELAUNI JENSEN, LMI ANALYST

The Unemployment Insurance Benefits program in Utah is administered by the Department of Workforce Services. This program was started to help safeguard the economy against short-term losses by aiding individuals who have lost their income because of a layoff. Through this program, DWS collects contributions, determines eligibility, takes claims and pays benefits to unemployed workers. When individuals find themselves out of work through no fault of their own or have their hours reduced, they can file what is called an initial claim, allowing them to become eligible for a minimum of 10 weeks and a maximum of 26 weeks of regular benefits. Not all claimants will use the entire time, as they may be able to find a new position with another industry or employer. To be eligible for these benefits, unemployed workers must meet certain criteria as defined by DWS, and an individual will not be eligible if they voluntarily leave their job. If a claimant has been deemed eligible, they will receive an amount based on their earnings over a recent 52-week period. Utah continues to update its UI program, making it easier for both claimants and employers, giving them the option to file and respond online.

When businesses lay off workers it causes the number of initial claims to rise — an indicator of a weakening economy. As the economy recovers and layoffs drop, so do initial claims. Mass layoffs, or establishments having 50 or more initial claims in a five-week period, are usually a contributing factor to a drastic increase, and the

Unemployment Insurance program helps identify those layoffs to ensure that workers qualify for UI benefits.

Analysts measure the level of initial claims to provide a leading indicator of labor market conditions in an attempt to gain insightful information about the economy. Initial claims data is released on a weekly basis. Some have questioned whether measuring initial claims in this way is a good indicator. Initial claims can increase when individuals are laid off or when the percentage of individuals who are eligible for, claim and receive UI benefits rises. This can make it more difficult to compare these levels over extended periods of time. Over the latest recession, the UI program expanded and allowed more workers to be eligible for benefits, making analysts take a harder look at those indicators.

In the beginning of 2007, Utah's economy was still thriving with just over 6,300 initial claims for January; but by the start of 2009 that number had risen to over 20,000 claimants. The labor force obviously suffers during recessions, and as we moved further into this latest, roughly 80,000 jobs were taken from Utah's workers, and UI claims continued to rise. In the past three years, initial claims have made a slow but steady descent with a 9,343 monthly average in 2010, just under 8,000 in 2011 and this most recent year behind us with barely over 7,000. In Utah, most economists and analysts agree that these and other indicators will continue to show this downward trend.